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FISCAL IMPACT STATEMENT

LS 6924
BILL NUMBER: SB 515

NOTE PREPARED: Jan 16, 2013
BILL AMENDED:

SUBJECT: Hospital Assessment Fee.

FIRST AUTHOR: Sen. Miller Patricia
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
X FEDERAL

IMPACT: State and Local

Summary of Legislation: This bill extends the Hospital Assessment Fee (HAF) until June 30, 2017. (The current law assessing the HAF expires June 30, 2013.) The bill also updates statutory references to the Hospital Assessment Fee.

Effective Date: Upon passage.

Summary of NET State Impact: This bill codifies the existing Hospital Assessment Fee program and extends it by four years. The 2012 annual assessment was for $646 M, leveraging total expenditures of $1.958 B. The federal share of funds would be $1.312 B. The assessment is to be used to increase Medicaid hospital rates, replace Disproportionate Share Hospital (DSH) distributions made to the state and private psychiatric facilities, and to provide additional state match dollars for use within the Medicaid program.

Explanation of State Expenditures: The bill codifies the elimination of Disproportionate Share Hospital program payments for state-operated facilities and requires the state to replace $2 M in DSH payments to private psychiatric facilities previously made with DSH funds (together these amounts total approximately $70 M). This provision is in effect during any period when the HAF is being collected.

Explanation of State Revenues: The bill codifies the existing hospital assessment fee and authorizes an extension period of four years beginning July 1, 2013, and ending June 30, 2017. The bill suspends certain hospital supplemental payment distribution programs during the term of the assessment fee and specifies

alternate DSH program payments for the term of the fee. The fee would be set at the level necessary: (1) to reimburse Medicaid services on parity with Medicare to the extent possible; (2) to replace private psychiatric facilities' DSH distributions and the state-operated facility DSH distributions currently available to be made to the state (approximately $70 M); and (3) to provide approximately $112 M in additional funding to the state for Medicaid expenditures. The current level of the assessment is approximately $646 M. The Auditors data base shows that $554 M was collected in FY 2012.

HAF Fee: The assessment is estimated to raise $646 M annually, which would leverage total state and federal expenditures of $1.958 B. The federal share of funds amounting to $1.312 B would be available for hospital reimbursement and other Medicaid-related expenditures. If the fee raises $646 M in funds, the state would be allocated 28.5% to use for other Medicaid purposes; the other 71.5% would be required to be used for hospital purposes. The state share would be expected to result in about $184 M. Of this amount, $70 M would be necessary to replace the state DSH funding for state-operated facilities. The balance of about $114 M would be used to provide the state share for Medicaid services - potentially replacing state general funds.

The bill establishes the Hospital Assessment Fee Committee (HAF Committee) to review and approve certain actions of the Office of Medicaid Policy and Planning (OMPP). It also specifies that if the fee is not approved by Centers for Medicare and Medicaid Services (CMS), if the HAF Committee does not approve certain actions of OMPP, or because of an appellate court order, the fee would cease to be collected. The bill does not address what would happen should the allowable maximum level of the fee be reduced by the federal government.

DSH Distributions: The federal Patient Protection and Affordable Care Act (ACA) contains provisions that require aggregate reductions in the amount of federal DSH distributions - $500 M in FFY 2014, and $600 M in FFY 2015. The Secretary of the federal Department of Health and Human Services (DHHS) is required to determine the distribution of the reduced DSH funding within certain parameters. No rules have been published on how the DSH distributions will be distributed among the states at this time. It is possible that states' decisions on whether to implement the Medicaid expansion could impact the magnitude of the state's DSH distribution. Actions to be taken by the Secretary of DHHS and the General Assembly will ultimately determine the impact on the level of DSH distributions to be made under the provisions of this bill.

Hospital Supplemental Payment Programs: The bill suspends certain hospital supplemental distribution programs during the term of the assessment fee, leaving in place the authority of the OMPP to make supplemental payments to hospitals that are eligible as DSH providers.

Background Information: HAF Fee: The amount of the inpatient HAF is based on total inpatient days attributable to Indiana residents as reported on the hospital's most recent fiscal year Medicare cost report. The outpatient HAF is based on equivalent outpatient days, derived by dividing each hospital's outpatient revenue per day by the hospital's inpatient revenue per day adjusted to preclude services provided to nonstate residents. The fee rate of $187.09 per inpatient day and $26.87 per equivalent outpatient day, is reduced by specific percentages for certain hospitals meeting defined Low Income Utilization Rates (LIURs), or that provide more than 25% of Medicaid days to nonstate residents. Long-term care hospitals, state-owned hospitals, federally-operated hospitals, freestanding rehabilitation hospitals, and freestanding psychiatric hospitals with more than 50% of admissions with a diagnosis of chemical dependency are excluded from the fee. The total amount of the fee paid by each hospital is limited to certain federally defined maximums and is subject to audit and adjustment each year the fee is collected.

Medicaid is jointly funded by the state and federal governments. The effective state share of program expenditures is approximately 33% for most services. Medicaid medical services are matched by the effective federal match rate (FMAP) in Indiana at approximately 67%. Administrative expenditures with certain exceptions are matched at the federal rate of 50%.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: FSSA.

Local Agencies Affected: Local government-owned hospitals.

Information Sources: FSSA; Auditor's Data base; and "Medicaid Disproportionate Share Hospital Payments," Congressional Research Service, Alison Mitchell, December 18, 2012, at www.fas.org/sgp/crs/misc/R42865.pdf ;

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